

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: May 5, 2008 (as amended April 30, 2008 by the Senate)

Bill Number: H.B. 3649

Authors: Witherspoon, Merrill, Agnew, et al.

Committee Requesting Impact: House of Representatives

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Chapter 63 to Title 12 so as to enact the "Energy Freedom and Rural Development Act" to allow a sales tax rebate for the purchase of certain fuel efficient vehicles and equipment used to convert a hybrid vehicle into a hybrid plug-in vehicle, to allow an incentive payment for alternative fuel purchases, and to establish the South Carolina Renewable Energy Infrastructure Development Fund; by adding Section 12-6-3376 so as to allow an income tax credit for the purchase or lease of a plug-in hybrid vehicle; by adding Section 12-6-3630 so as to allow an income tax credit for qualified expenditures for research and development of feedstocks and processes for cellulosic ethanol and for algae-derived biodiesel; by amending Section 12-6-3587, relating to tax credits for solar energy heating and cooling systems, so as to allow a tax credit equal to three thousand five hundred dollars for each building that is installed with a solar energy system; by amending Section 12-6-3600, relating to tax credits for an ethanol and biodiesel facility, so as to allow a tax credit for a corn-based ethanol and soy-based biodiesel facility and a noncorn ethanol and nonsoy oil biodiesel facility; by amending Section 12-6-3610, relating to tax credits for the cost of purchasing and installing property to distribute and dispense renewable fuels, so as to limit the credit to one million dollars, to define the term "renewable fuel", and to add clarifying language; by amending Section 12-6-3620, relating to tax credits for the cost of methane gas use, so as to allow a tax credit for the cost of equipment to create a form of energy from a biomass resource and to limit the credit to one million dollars; and by amending Section 12-28-110, as amended, relating to the motor fuel fees, so as to change the definition of "biodiesel".

REVENUE IMPACT ^{1/}

The bill, as amended, is expected to increase General Fund sales tax revenue by \$735,221 in FY 2008-09, \$1,636,468 in FY 2009-10, \$2,790,172 in FY 2010-11, \$4,077,941 in FY 2011-12 and \$4,150,000 in FY 2012-13. It also decreases General Fund revenues, other than sales tax, by \$100,000 in FY 2008-09, increases revenues \$550,375 in FY 2009-10, and then decreases revenue by \$16,994 in FY 2010-11, \$512,941 in FY 2011-12 and \$546,317 in FY 2012-13. The bill increases General Fund income tax revenue by \$1,700,000 in FY 2008-09 and then decreases income tax revenue by \$3,060,000 in FY 2009-10. The total impact is to increase General Fund revenues by \$2,335,221 in FY 2008-09, decrease revenues by \$873,157 in FY 2009-10, and increase revenues by \$2,773,179 in FY 2010-11, \$3,564,999 in FY 2011-12 and \$3,603,683 in FY 2012-13.

Explanation of Amendment by the Senate (April 30, 2008)

Section 1. This section eliminates all alternative fuel vehicle sales tax rebates passed in Act 83 of 2007 in Section 12-63-20 (A). Eliminating these sales tax rebates is estimated to increase General Fund sales tax revenue by \$735,221 in FY 2008-09, \$1,636,468 in FY 2009-10, \$2,790,172 in FY 2010-11, \$4,077,941 in FY 2011-12 and \$4,150,000 in FY 2012-13. This section also repeals the cap of \$2,100,000 on all incentive payments by the state outlined in parts B & C of Section 12-63-20. The first incentive payment provides alternative fuel retailers payments by the State of 5 cents per gallon of ethanol and 25 cents per gallon of biodiesel for each gallon sold. Based upon information provided by alternative fuel retailers, we have revised down our estimates of alternative fuel sales. Using these revised figures without a cap, we estimate that the reduction in General Fund revenue from incentive payments to retailers producing alternative fuels will be \$1,049,625 for FY 2009-10, \$1,416,994 in FY 2010-11, and \$1,912,942 in FY 2011-12. The change in projected production lowers the General Fund revenue impact by \$867,233 in FY 2009-10, \$515,183 in FY 2010-11 and \$33,375 in FY 2011-

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12. The second incentive provides \$100,000 payments by the State to entities for the production of electricity or energy from biomass resources outlined in Section 12-63-20 (C). Based upon industry reports, we have revised up our estimate of qualifying entities, and anticipate a reduction in General Fund revenue of \$300,000 in FY 2008-09. For following years in the absence of the cap, we expect incentive payments to increase to \$500,000 in FY 2009-10 and \$700,000 in FY 2010-11, FY 2011-12 and FY 2012-13. Based upon these estimates compared to last year's impact, we anticipate that General Fund Revenue will be reduced by an additional \$100,000 in FY 2008-09, \$316,858 in FY 2009-10, \$532,177 in FY 2010-11, and \$546,317 for FY 2011-12. The incentives can be claimed by an entity for five years or until FY 17-18, so the impact in years beyond FY 11-12 will depend on the number of claimants. The section decreases General Fund Revenues other than sales tax by \$100,000 in FY 2008-09, increases revenues \$550,375 in FY2009-10, and then decreases revenue \$16,994 in FY2010-11, \$512,941 in FY 2011-12 and \$546,317 in FY 2012-13.

Section 3. Part A. This section repeals the cap on total alternative fuel producer income tax credits in FY 2009-10, changes the period for which the credits apply from a fiscal year basis to a calendar year basis, and requires that the State Energy Office approve all credit claims. During the change-over, the section requires taxpayers to use the credit for the eighteen-month period from July 1, 2008 to December 31, 2009 in their tax year containing December 31, 2009, and taxpayers may not claim the credit during FY 2008-09. Alternative fuel producers are allowed an income tax credit of 20 cents per gallon for ethanol and biodiesel produced in South Carolina and an additional 10 cents per gallon for non-corn ethanol and non-soy biodiesel produced in the state. Section 12-6-3600(H), passed in Act 83 of 2007, placed a cap of \$800,000 on the total income tax credits claimed for alternative fuel production. Based upon information provided by firms that currently produce alternative fuels in the state, we estimate the total individual income tax credits earned by these pass-through businesses to be \$6,200,000 for the 20 cent credit based upon 31,000,000 gallons of biodiesel fuel currently being produced in South Carolina. For non-soy biodiesel, we estimate one company earned income tax credits of \$600,000 for the 10 cent credit for 6,000,000 gallons of non-soy biodiesel produced in SC during 2007. Based upon Department of Revenue information on net income and the use of tax credits, we estimate that in the absence of the cap, existing taxpayers would use 50% of their earned income tax credits in 2007. Therefore, we estimate that we collected revenue of \$2,600,000 for these taxpayers since they were only able to claim \$800,000 of the credits earned in tax year 2007. The income tax revenue generated by these companies in tax year 2007 and subsequently in tax year 2008 above the \$800,000 credit cap is included in our revenue base for FY 2009-10. Under the amendment, the change in application period will increase General Fund income tax revenue by \$800,000 in FY 2008-09, since no claims can be made until after the State Energy Office certifies the credit amount by March 2009. We estimate that repealing the \$800,000 cap in FY 2009-10 will reduce income tax revenue by \$2,600,000 in FY 2009-10 for these companies paying income tax in 2007 and 2008. New companies coming into the state in 2008, however, are not included in the estimated impact because they are new companies.

Part B. This part of Section 3 eliminates the \$150,000 cap in Section 12-6-3610 (E) on the income tax credits for taxpayers purchasing or constructing facilities for distributing or dispensing renewable fuels or producing renewable fuels that took effect on January 1, 2008. This section also changes the period for which the credits apply from a fiscal year basis to a calendar year basis, and requires that the State Energy Office approve all credit claims. During the change-over, the section requires taxpayers to use the credit for the eighteen-month period from July 1, 2008 to December 31, 2009 in their tax year containing December 31, 2009, and taxpayers may not claim the credit during FY 2008-09 and therefore the section increases General Fund income tax revenue \$150,000 in FY2008-09. Based upon information provided by alternative fuel retailers and producers on eligible expenditures,

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we expect that approximately 50% of the tax credits earned will be taken and anticipate that this will reduce income tax revenue above the \$150,000 cap by an additional \$310,000 for FY 2009-10.

Part C. This part of Section 3 repeals the \$650,000 limit on all claims in Section 12-6-3620, which provides a corporate income tax or corporate license fee credit up to \$650,000 per taxpayer for 25% of the costs incurred for purchase and installation of equipment used to create heat, power, steam, electricity, or another form of energy from a biomass resource. This section also changes the period for which the credits apply from a fiscal year basis to a calendar year basis, and requires that the State Energy Office approve all credit claims. During the change-over, the section requires taxpayers to use the credit for the eighteen-month period from July 1, 2008 to December 31, 2009 in their tax year containing December 31, 2009, and taxpayers may not claim the credit during FY 2008-09 and therefore the section increases General Fund income tax revenue \$650,000 in FY2008-09. Repealing the cap is not expected to reduce corporate income tax or license fee revenue because the majority of the businesses in this industry are pass-through businesses and no additional corporate taxpayers are currently expected to qualify in FY 2009-10.

Part D. This part of Section 3 eliminates the cap of \$100,000 on all credits in Section 12-6-3631, which provides an income tax credit starting in tax year 2008 for expenditures relating to research and development of cellulosic ethanol and algae-derived biodiesel. This section also changes the period for which the credits apply from a fiscal year basis to a calendar year basis, and requires that the State Energy Office approve all credit claims. During the change-over, the section requires taxpayers to use the credit for the eighteen-month period from July 1, 2008 to December 31, 2009 in their tax year containing December 31, 2009, and taxpayers may not claim the credit during FY 2008-09 and therefore the section increases General Fund income tax revenue \$100,000 in FY2008-09. Eliminating this cap is not anticipated to reduce income tax revenue in FY 2009-10 because the interested companies are primarily startup businesses and are not in our revenue base.

Explanation of the Bill

The following is a review of sections of the bill related to revenues.

Section 1. This section provides a sales tax rebate of \$300 for the in-state purchase of a flex fuel vehicle capable of operating on 85% ethanol fuel (E85), an advance lean burn or hydrogen-fueled vehicle, a hybrid or plug-in hybrid vehicle, or a high fuel economy vehicle with a city fuel economy rating of 30 miles per gallon or higher. It also provides a \$500 sales tax rebate for the conversion of a conventional hybrid vehicle to a plug-in hybrid vehicle or conversion of a conventional vehicle to operate on propane, compressed natural gas, liquefied natural gas, hydrogen or E85. The rebates allowed by this section are expected to decrease General Fund sales tax revenue by an estimated \$3,383,000 in FY 2007-08. The section also provides incentive payments to retailers of \$0.05 per gallon of 70% ethanol fuel (E70) and \$0.25 per gallon of pure biodiesel (B100) for on-road and off-road use. We anticipate retailer payments for 3,600,000 gallons of E70 at \$180,000 and 6,200,000 gallons of B100 for \$1,550,000. The total estimated reduction in General Fund revenue from this section is anticipated to be \$5,113,000 in FY 2007-08.

Section 2. This section creates an income tax credit of \$2000 for the in-state purchase or lease of a plug-in hybrid vehicle. Plug-in hybrid vehicles are expected to be offered for sale in 2008, so an income tax credit would be taken in tax year 2008, reducing General Fund income tax revenue by an estimated \$200,000 in FY 2008-09. There is no anticipated impact on General Fund income tax revenue in FY 2007-08.

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Section 3. This section provides an income tax credit of 25% of expenditures relating to research and development of feedstocks and processes for cellulosic ethanol and for algae-derived biodiesel, not to exceed \$100,000 per taxpayer. We anticipate one facility will be eligible for this credit with a maximum reduction in General Fund Revenue of \$100,000 in FY 2007-08.

Section 4. This section amends Section 12-6-3587 relating to the income tax credit allowed for the purchase and installation of solar energy systems. This clarifying language is not anticipated to affect General Fund revenues for FY 2007-08.

Section 5. This section amends the income tax credit in Section 12-6-3600 for the production of ethanol and biodiesel. It increases the credit for non-corn ethanol and non-soy biodiesel from \$0.20 per gallon to \$0.30 per gallon. The net result is an additional reduction in income tax revenue of \$0.10 per gallon produced. We anticipate one facility producing 6,000,000 gallons of non-soy biodiesel in FY 2007-08 for a reduction in General Fund Revenue of \$600,000 in FY 2007-08.

Section 6. This section amends Section 12-6-3610 which provides income tax credits for expenditures relating to renewable fuel production and distribution. It clarifies the 25% credit for the cost of purchasing equipment for renewable fuel distribution which is not anticipated to affect income tax revenue. It amends the credit of 25% of the cost of constructing a facility for producing renewable fuels by also applying the credit to expenditures for renovating facilities in addition to new construction and limits the total credit for all years to \$1,000,000. It is anticipated that one facility will qualify for the amended credit, which taken over 7 years, will decrease General Fund income tax revenue by \$142,857 in FY2007-08.

Section 7. This section amends Section 12-6-3620 that provides a 25% income tax credit for costs incurred related to producing power from methane gas and applies the credit to expenditures for installation of equipment used to create heat, power, steam, electricity, or another form of energy for commercial use from a biomass resource. The total credit is limited to \$1,000,000 per taxpayer and can be carried forward for up to 15 years. It is anticipated that this will reduce General Fund income tax revenue by \$200,000 in FY 2007-08.

/s/ WILLIAM C GILLESPIE
William C. Gillespie, Ph.D.
Chief Economist

Analyst: Jolliff

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.

ALTERNATIVE FUELS - H.3649 as amended by the Senate Apr 30, 2008 FY 2008-09 to FY 2012-13

Line **SALES TAX REBATES**

1
2 **Amend Vehicle Sales Tax Rebates by Eliminating all Rebates**

Vehicle Sales Tax Rebates	Rebate Amount	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
Section 12-63-20(A)(1)a						
Sales Tax Rebate Phase-In		\$60	\$120	\$180	\$240	\$300
Flex-fuel vehicles capable of operating on E85 fuel up to \$2,050,000 in total rebates		6,192	6,811	7,492	8,241	9,066
Estimated Rebates		(\$371,514)	(\$817,331)	(\$1,348,596)	(\$1,977,941)	(\$2,050,000)
Eliminate Rebates for Flex-fuel Vehicles	\$0	\$0	\$0	\$0	\$0	\$0
Net Impact of Amendment		\$371,514	\$817,331	\$1,348,596	\$1,977,941	\$2,050,000

Vehicle Sales Tax Rebates	Rebate Amount	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
Section 12-63-20(A)(1)(b) through (e)						
Sales Tax Rebate Phase-In		\$60	\$120	\$180	\$240	\$300
Hydrogen fuel cell and/or advanced lean burn vehicles		0	0	500	550	605
Estimated Rebates		\$0	\$0	(\$90,000)	(\$131,106)	(\$131,106)
Eliminate Rebates for Flex-fuel Vehicles	\$0	\$0	\$0	\$0	\$0	\$0
Net Impact of Amendment		\$0	\$0	\$90,000	\$131,106	\$131,106

Hybrid and Plug-in Hybrid gasoline-electric vehicles						
		3,164	3,638	4,002	4,402	4,842
Estimated Rebates		(\$189,819)	(\$436,584)	(\$720,363)	(\$1,049,381)	(\$1,049,381)
Eliminate Rebates for Flex-fuel Vehicles	\$0	\$0	\$0	\$0	\$0	\$0
Net Impact of Amendment		\$189,819	\$436,584	\$720,363	\$1,049,381	\$1,049,381

High fuel economy vehicles with an EPA rating of 30mpg (city) or higher						
		2,715	2,986	3,285	3,613	3,975
Estimated Rebates		(\$162,888)	(\$358,354)	(\$591,283)	(\$861,345)	(\$861,345)
Eliminate Rebates for Flex-fuel Vehicles	\$0	\$0	\$0	\$0	\$0	\$0
Net Impact of Amendment		\$162,888	\$358,354	\$591,283	\$861,345	\$861,345

Sales Tax Rebate Phase-In						
		\$100	\$200	\$300	\$400	\$500
Conversion of hybrid gasoline-electric vehicles to plug-in hybrid gasoline-electric vehicles; conversion of vehicles to operate on propane, compressed natural gas, liquefied natural gas, hydrogen or E85		110	121	133	146	161
Estimated Rebates		(\$11,000)	(\$24,200)	(\$39,930)	(\$58,168)	(\$58,168)
Eliminate Rebates for Flex-fuel Vehicles	\$0	\$0	\$0	\$0	\$0	\$0
Net Impact of Amendment		\$11,000	\$24,200	\$39,930	\$58,168	\$58,168

Estimated Total Sales Tax Rebates up to \$2,100,000 cap -Current Law		(\$363,707)	(\$819,137)	(\$1,441,577)	(\$2,100,000)	(\$2,100,000)
Revised Estimated Total Sales Tax Rebates up to \$2,100,000 cap - Amendment		\$0	\$0	\$0	\$0	\$0

TOTAL VEHICLE SALES TAX REBATES-CURRENT LAW	(\$735,221)	(\$1,636,468)	(\$2,790,172)	(\$4,077,941)	(\$4,150,000)
REVISED TOTAL VEHICLE SALES TAX REBATES-AMENDMENT	\$0	\$0	\$0	\$0	\$0

NET ANNUAL IMPACT OF AMENDMENT ON SALES TAX REVENUE	\$735,221	\$1,636,468	\$2,790,172	\$4,077,941	\$4,150,000
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ALTERNATIVE FUELS - H.3649 as amended by the Senate Apr 30, 2008 FY 2008-09 to FY 2012-13

Line **INCENTIVE PAYMENTS**

1
2 **Repeal Cap of \$2,100,000 on All Incentive Payments**

Alternative Fuel Retailer Incentives Section 12-63-20(B)		Payment	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
4	Payment to retailer per gallon of E70 or greater sold after June 30, 2006 provided that the fuel is subject to the motor fuel user fee	\$0.05		(\$199,442)	(\$201,036)	(\$202,507)	
5	Revised Estimate of Retailer Payments for Ethanol	\$0.05		(\$222,750)	(\$300,713)	(\$405,962)	
5	Net Impact of Amendment			(\$23,308)	(\$99,677)	(\$203,455)	
7							
8	Payment to retailer per gallon of pure biodiesel sold after June 30, 2006 provided that the fuel is subject to the motor fuel user fee	\$0.25		(\$1,717,416)	(\$1,731,141)	(\$1,743,810)	
9	Revised Estimate of Retailer Payments for Biodiesel	\$0.25		(\$826,875)	(\$1,116,281)	(\$1,506,980)	
10	Net Impact of Amendment			\$890,541	\$614,860	\$236,830	

11
12 **Total Estimated Retailer Incentive Payments - Current Law** **(\$1,916,858)** **(\$1,932,177)** **(\$1,946,317)**
13 **Revised Total Retailer Incentive Payments - Amendment** **(\$1,049,625)** **(\$1,416,994)** **(\$1,912,942)**

Net Annual Impact of Amendment on Retailer Payments by the State **\$867,233** **\$515,183** **\$33,375**

(available through FY 17-18)

Electricity and Biomass Energy Production Incentives Section 12-63-20(C)		Payment	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
18	Incentive payment of 1¢ per kilowatt-hour for production of electricity from biomass resources up to a maximum of \$100,000 per year per taxpayer	\$0.01	(\$100,000)	(\$91,571)	(\$83,912)	(\$76,842)	(\$76,842)
19	Revised Estimate of Incentive Payment for electricity produced from biomass	\$0.01	(\$100,000)	(\$100,000)	(\$200,000)	(\$200,000)	(\$200,000)
20	Net Impact of Amendment		\$0	(\$8,429)	(\$116,088)	(\$123,158)	(\$123,158)
21	Incentive payment of 9¢ per therm for production of methane gas fuel produced from biomass resources up to a maximum of \$100,000 per taxpayer per year	\$0.09	(\$100,000)	(\$91,571)	(\$83,912)	(\$76,842)	(\$76,842)
22	Revised Estimate of Incentive Payment for energy produced from biomass (30 cents per therm)	\$0.30	(\$200,000)	(\$400,000)	(\$500,000)	(\$500,000)	(\$500,000)
23	Net Impact of Amendment		(\$100,000)	(\$308,429)	(\$416,088)	(\$423,158)	(\$423,158)

24
25 **Total Estimated Incentive Payments - Current Law** **(\$200,000)** **(\$183,142)** **(\$167,823)** **(\$153,683)** **(\$153,683)**
26 **Revised Total Estimated Incentive Payments - Amendment** **(\$300,000)** **(\$500,000)** **(\$700,000)** **(\$700,000)** **(\$700,000)**

Net Annual Impact of Amendment on Electricity and Energy Production Incentive Payments **(\$100,000)** **(\$316,858)** **(\$532,177)** **(\$546,317)** **(\$546,317)**

28
29
30 **TOTAL INCENTIVE PAYMENTS BY THE STATE-CURRENT LAW** **(\$200,000)** **(\$2,100,000)** **(\$2,100,000)** **(\$2,100,000)** **(\$153,683)**
31 **REVISED INCENTIVE PAYMENTS BY THE STATE-AMENDMENT** **(\$300,000)** **(\$1,549,625)** **(\$2,116,994)** **(\$2,612,942)** **(\$700,000)**

32
33 **NET IMPACT OF AMENDMENT ON INCENTIVE PAYMENTS** **(\$100,000)** **\$550,375** **(\$16,994)** **(\$512,941)** **(\$546,317)**